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AUG 7 1961

TO : The Secretary
FROM: INR - Thomas L. Hughes

INTELLIGENCE NOTE: SOVIET NOTE OF AUGUST 16 ON BERLIN

Propaganda Return. The Soviet note of August 16 is essentially a propaganda statement for the record designed to convince the world at large that the GDR acted fully within its rights in closing the sector border. Noteworthy in this regard is the note's repeated reference to the GDR's "state border" with West Berlin (meaning the intra-Berlin border), the first such assertion to appear in an official Soviet document, and the rather defensive cataloging of charges regarding West Berlin's disruptive effect on the GDR and the communist position in East Europe generally. The note makes no reference to negotiations; evidently the Soviets prefer to await the West's answer to their August 3 note before raising this subject again.

Ambiguous on Allied Rights. In supporting the GDR's "sovereign right" to control the border and in accusing the Western powers of violating the quadripartite agreements on Berlin, the note implies these agreements are no longer valid. Even so, the note does not specifically deny the validity of the four-power agreements at least as they affect West Berlin. This ambiguity is probably deliberate, aimed at furthering the foregoing objectives and, at the same time, maintaining the Soviet position that a peace treaty will (or could) end Allied rights in Berlin. The note gives

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no clear indication of an early communist move to deny Allied access to East Berlin, but such a possibility cannot be excluded.

Stress on Currency Speculation. There is surprising emphasis on the economic cost to the GDR of the "open border" with West Berlin. Currency speculation, economic diversion and other damage inflicted on the GDR population by the FRG were cited. The Soviet note places the cost to the GDR at over $3\frac{1}{2}$ billion marks annually. (The GDR had originally claimed only 1 billion as the cost.) This emphasis suggests that the GDR might issue new currency in the near future.

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